Example of financial reporting and analysis critical thinking

Business, Management

Finance

a)

Accounting practices have not been limited by time, laws, regulations and professional standards. On the contrary, the ethical framework has received little attention as the financial disclosures are reviewed by auditors who have a bias for operating events. Moreover, as shown by the survey, what is moral, ethical or fair is subjective and there are no existing precedents to borrow from thus the differences in managers' views. Generally, the survey revealed that managers manipulate accounting disclosures to suit their personal interests but still fallen within the regulations and professional requirements showing the failure of such restrictions.

b)

Indeed most managers had a conservative interpretation of what is moral or ethical in financial reporting. To them, as long as an accounting practice is not expressly barred or the practice does not substantially deviate from the set out rules then it is ideally moral and ethical. A good example is their take on the morality of earnings management the results as they are tabulated in the report.

c) Managers exhibited a surprising agreement as to what constitutes an ethical or unethical practice as their view was not in consonance to that expected of professionals. Their view that what is unethical is that which the law explicitly prohibits or what substantially deviates from the rules. They do not take into account the effects of manipulations of financial reports on the users. Going by that, anyone who consumes short term information was vulnerable to misinformation, manipulation and deliberate deception.

d)

1) The management of short term earnings using financial accounting methods was considerably unacceptable than achieving the same effects by manipulating or changing operating procedures or decisions.

2) The course of the impact on earnings mattered with increasing earnings being seen as less acceptable than plummeting earnings.

3) The duration of the financial effect may have an impact on ethical judgments. Managing short term earnings at the end of an interim quarterly period was viewed as more appropriate than engaging in a similar activity at the end of an annual reporting period.

4) The technique of administration of earnings has an impact. Increasing profits by presenting extended credit terms was seen as less satisfactory than bringing about the same end by selling surplus assets or making use of overtime to increase shipments.

5) The diverse respondents' judgments of the acceptability of this practice giving the user of short term earnings report a hard time in knowing the quality of the information.

e)

Managers have a poor ability of managing earnings in the long run. Generally, managers know that the manipulation of financial accounting, especially manipulation of short term earnings was detrimental in the long run. However, it is legal and they are actually not breaching any rules since manipulation of short term earnings still fall within the legal framework. The survey revealed that the managers were tolerant to operating manipulations. The managers also had divergent views about what practice was moral and ethical among themselves. The manager's ability to manage earnings in the long run by influencing financial accounting is limited to the use of standards set with the involvement of the entire management. For managers to be able to manage earnings in the long run, they should agree on what exactly is moral and ethical. Secondly, managers should give clear instructions on the type of manipulation that their employees can perform.

References

Gibson, C. H. (2010). Financial Reporting & Analysis: Using Financial Accounting Information (12 ed.). London: Cengage Learning.